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Annual Report 1963

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Spartan Air Services Limited

Spartan Air Services Limited and its Subsidiaries

**ANNUAL REPORT
FOR THE YEAR ENDED OCTOBER 31st, 1963**

CORPORATE DATA

Author

H. D. Harcourt & Co.

Transfer Agent and Registrar

The Bank of Montreal

Company, National, Working and Financial

Legal Counsel

Shirley, Grant & Associates, Toronto

SUBSIDIARY COMPANIES

Sulmac Exploration Services Limited
Toronto, Canada

Velocity Surveys Limited
Calgary, Alberta
Brisbane, Australia

Spartan Air Services, S.A.
Buenos Aires, Argentina

Meridian Airmaps Limited
Lancing, England

Spartan Air Services Pty. Ltd.
Brisbane, Australia

DIRECTORS

W. P. MCGILL

J. A. ROBERTS

B. E. MCGILL

F. C. McCONNELL

E. A. GLICK

J. H. HAWKE

D. W. McLARTY

CORPORATE DATA

Auditors

V. D. Harbinson & Co.

Transfer Agent and Registrar

The Royal Trust Company

Toronto, Montreal, Winnipeg and Vancouver

Legal Counsel

Manley, Grant & Armstrong, Toronto

To the Shareholders:

An Introduction

As a departure from the usual presentation of results for the period, this brief introduction and other items which have not appeared in previous reports have been included this year in order to inform shareholders more fully of the activities and capabilities of the company. It is felt this knowledge will be of interest to shareholders and it is hoped the interest generated will ultimately be of benefit to both the company and the shareholders.

Spartan was born and matured in the environment of a post-war Canada in active development. The knowledge and experience gained against this background is the company's most valuable asset.

Spartan today is a group of companies, both in Canada and abroad, engaged in mapping the earth's surface and in locating and evaluating the earth's natural wealth, both above and below the surface. Of prime importance are Spartan's advisory services in the most rewarding methods of exploiting this wealth, as well as on the protection and regeneration of renewable resources.

People, with highly developed professional and technical knowledge in earth and engineering sciences, are the backbone of Spartan. Using airborne and ground exploration and

mapping equipment, the company undertakes the most complex assignment in the fields of exploration, resources, and photogrammetric engineering anywhere in the world.

The Spartan companies are equipped to photograph from the air, segments of the earth, from a few square miles to many thousands of square miles. The photographs can be used to produce maps accurately positioning and depicting natural geographic or man-made features. They are also used to record, study and evaluate natural resources. Aircraft equipped with airborne geophysical equipment produce basic data.

On the ground, either independently or as an extension of the airborne work, the companies can map basic geographic features, produce accurate and detailed maps of cities and towns, locate and plan a new town-site, highway, railway, road, or meet the most demanding specifications of siting a microwave communications system; compile a geological map of a country or locate a mineral deposit or an oil field, manage a mine or measure the exact volume of lumber in a forest; survey present land use and advise on potential land use, or make an inventory of wild life.

In the transportation field, a fleet of helicopters is available for charter or contract movement of men and goods. Maintenance, repair and overhaul services are provided for customers' aircraft and helicopters at the company's facilities in various locations.

Of major importance, particularly in the developing countries, are the company's training programmes in many phases of its activities, for those eager to learn and contribute to the growth of their native country.

Employees

At the end of the period, the company and subsidiaries had a total of 475 employees, embracing ten nationalities, spread over seven countries. The majority of the employees are highly skilled technicians and many are experienced and widely recognized professionals. In this group are included thirty-three fully qualified professional engineers and earth scientists.

Shareholders

The number of Shareholders of Record at October 31, 1963, was 1,781.

Financial Results

Consolidated net earnings for the period amounted to \$206,629, equivalent to 11.3 cents per common share and representing an increase of 30% over the 1962 fiscal period.

As a result of the consolidation of subsidiary companies and the earnings of the company, working capital was increased from \$391,000 to \$832,000.

All subsidiary and associate companies, both in Canada and Overseas, contributed to the consolidated earnings in 1963.

The Year in Review

Production on the magnetic surveys under the Federal-Provincial Governments' Road to Resources Programme continued well ahead of schedule.

The photographic laboratories, photogrammetric and land resources departments, all enjoyed reasonable production and full advantage was taken of newly acquired equipment and facilities.

The company's participation in oil exploration in Western Canada was maintained and the number of field parties mobilized at year end gives promise of increased activity in this field in 1964. Mineral exploration activities in Canada did not, however, increase in any appreciable manner, although reasonable participation was achieved under the circumstances.

Helicopter operations were maintained at a minimum level in a very competitive market. The problem of greater utilization of the helicopter fleet is under active review. Hangar operations were continued at a satisfactory level. Maintenance, repair and overhaul of the company's fixed and rotary wing aircraft, as usual, constituted the main activity although outside customer work, primarily overhaul of government helicopters, contributed substantially to hangar revenue.

In Argentina, the company's cadastral mapping contract with the Province of Mendoza has been extended and the terms of payment favourably renegotiated. Production has been accelerated to the benefit of both the client and the company. Work continued in the Province of San Luis as well as on other contracts in Argentina and Uruguay. Operations in Argentina are progressing smoothly and profitably. Payments are being received on a current basis.

The gravity survey in Australia on behalf of the Bureau of Mineral Resources is nearing completion and it is expected that the experience gained on this contract will prove most valuable on future work in the area. The survey, although not without some minor difficulties in the early stages, has progressed satisfactorily and will be completed in the favourable weather period.

In Africa, two contracts are in progress. The forest inventory and programme to train African foresters and rangers in Kenya is continuing. This project is being undertaken under the auspices of the Canadian Government External Aid Office. In Togo, West Africa, the airborne mineral survey, a United Nations Special Fund project, has commenced and is scheduled for completion early in 1964.

The field classification survey in the Middle East is now in full operation and two company helicopters are employed in transporting and supplying field personnel. This survey will continue through 1964.

During the year the company has maintained its position in Canada and has improved its position abroad. The number and variety of projects under contract overseas this winter will assist considerably in balancing the sometimes seasonal nature of many of its activities.

Plant and Equipment Improvements

The year was notable for the acquisition of much improved facilities by two of the overseas companies.

Meridian Airmaps Limited moved into a newly constructed building at Lancing, Sussex. The building is of sound construction and pleas-

ing appearance. Designed especially to accommodate the equipment and facilities of the company, the new plant will allow the planned expansion of Meridian in the years ahead.

Spartan Air Services S.A. moved into new premises in both Buenos Aires and Mendoza. The Buenos Aires laboratories are closer to the business center of the city and permit a more efficient operation than was possible in the earlier building. The new Mendoza facilities are also better suited to the increased activities in that Province.

All moves were accomplished with a minimum of disruption to everyday activities, but naturally resulted in some loss of production during the period. The improved premises, however, are fully expected to facilitate the increased production in both the U.K. and Argentina foreseen in 1964 and subsequent fiscal years.

Equipment purchases made during the year are planned to keep the company at the forefront of the industry.

Marketing

The effort directed in this and earlier years toward recovering and obtaining new overseas markets is showing the desired results. The United Nations Airborne Mineral Survey in Togo is the first in this field awarded to a Canadian company. The gravity survey being performed in Australia marks the first exploration programme of this nature undertaken by the company in that country and it was the first such programme contracted by the Australian Government. The Canadian Government External Aid project in Kenya, the surveys in The Middle East and Uruguay and the work in Argentina, all add to the companies' experience

and each in turn helps open avenues to new sales.

In Canada, this year saw the entry of the company into the computer mapping field for the rehabilitation and development of agricultural land. This programme should not only have considerable potential in Canada but should have wide and beneficial effects in resources surveys for undeveloped countries of the World.

Tender work in some fields continues to be highly competitive, reflecting a surplus of facilities in these areas. The company has, however, increased its share of this business and has achieved an overall profit on tender work.

Outlook

A study of all the major influences on the future of the company suggests a favourable climate for sustained growth and increased earnings in the years ahead.

Of major importance, and an area in which the company can make its most valuable contribution, is the development of the new nations and the economically less fortunate countries of the world. An essential requirement of many of these countries is basic mapping and a knowledge of their natural resources and power potential. Many hundreds of millions of dollars are made available every year for these purposes by international and regional assistance agencies such as the United Nations Special Fund, acting through the facilities of the United Nations, the World Bank and the Food & Agricultural Organization in Rome, the Inter-American Development Bank, the Organization

of American States, the Colombo Plan and others. In addition to aid given through international agencies, many of the developed countries provide assistance through unilateral programmes. For example, Canada alone provides directly many millions of dollars of help in these areas every year through the External Aid Office.

The company has provided services under a number of these programmes in the past and participation can be expected to increase in future years. Production in Argentina will be accelerated in 1964 and a substantial increase in earnings is forecast for Spartan Air Services S.A. At the same time, it is expected that the Argentine company will be in a position to return to the parent company funds advanced in previous years. This will have the desired effect of increasing available working capital in Canada.

The outlook in Canada remains stable, although no significant increase in available business is foreseen. It is expected that the new magnetic contracts will be awarded during the year under the Federal-Provincial programme which could add substantially to the company's carryover into 1965.

Increased activity also appears certain in oil exploration, particularly in the seismic field.

The new period is expected to show overall gains equalling at least those achieved in the current and previous two years.

Presented on behalf of the Board:

W. P. MCGILL,
President.

Spartan Air Services Limited

Consolidated Balance Sheet as at

ASSETS

Current:

| | | | |
|---|-----------|-----------|-------------|
| Cash on hand and in bank..... | \$ | 9,523 | |
| Marketable securities at cost..... | | 31,139 | |
| Deposits and accounts receivable, less allowance for doubtful accounts..... | | 1,205,697 | |
| Unbilled contract work—at selling price..... | | 444,648 | |
| Inventories: | | | |
| Work-in-process—at selling price, less estimated profit margin..... | \$284,057 | | |
| Components, spare parts and miscellaneous supplies, at cost..... | 489,890 | 773,947 | |
| Prepaid expenses and deferred charges..... | | 160,506 | \$2,625,460 |

Fixed (at cost):

| | | | |
|---|-------------|-----------|--|
| Aircraft and aerial cameras..... | \$1,738,769 | | |
| Other equipment..... | 1,437,859 | | |
| Buildings on leasehold land (Notes 3 and 4)..... | 290,105 | | |
| Leasehold improvements..... | 22,638 | | |
| | \$3,489,371 | | |
| Less: Accumulated depreciation and amortization.. | 1,902,105 | 1,587,266 | |

Organization expense, less accumulated amortization... 163,647

Goodwill..... 235,154

\$4,611,527

Signed on behalf of the Board:

"W. P. McGILL," Director.

"B. E. McGILL," Director.

and Its Subsidiaries

EXHIBIT 1

October 31, 1963

LIABILITIES

Current:

| | | |
|---|------------|-------------|
| Bank advances (partially secured) | \$ 102,039 | |
| Accounts payable and accrued liabilities | 480,003 | |
| Loans payable (partially secured) | 678,237 | |
| Income taxes payable | 792 | |
| Current instalments of funded debt and other long-term liabilities | 223,537 | |
| Advance payments on contracts | 308,788 | \$1,793,396 |
| Subscriptions to capital stock | | 126,000 |
| Funded debt and other long-term liabilities (Note 9) . . . | \$ 987,127 | |
| Less: Instalments included with current liabilities . . | 223,537 | 763,590 |
| Minority interest in Meridian Airmaps Limited | | 30,167 |

SHAREHOLDERS' EQUITY

Capital Stock:

Authorized:

1,350 6% Cumulative redeemable Class "A" preferred
shares of a par value of \$100 each

8,500 6% Cumulative redeemable Class "B" preferred
shares of a par value of \$100 each, less 457 shares
purchased for redemption and cancelled

3,000,000 Common shares of no par value (Notes 8 and 10)

Issued and fully paid:

1,350 Class "A" preferred shares (Note 11) \$ 135,000

1,823,015 Common shares 2,713,463

\$2,848,463

Capital Surplus \$ 45,700

Contributed surplus 147,768

Deficit (Exhibit 2) (1,143,557) (950,089) 1,898,374

\$4,611,527

The notes to the consolidated financial statements are an integral part of this statement.

Spartan Air Services Limited and Its Subsidiaries

Consolidated Statement of Earnings For the Year Ended October 31, 1963

| | | | |
|--|-----------|---------|-------------------|
| Profit before taking into account the following items..... | | | \$ 563,953 |
| Depreciation and amortization of fixed assets..... | \$227,708 | | |
| Amortization of organization expense..... | 11,100 | | |
| Interest on funded debt and other long-term liabilities..... | 56,310 | | |
| Legal fees..... | 22,599 | | |
| Remuneration of executive officers..... | 132,100 | | |
| | <hr/> | | |
| | \$449,817 | | |
| Less: | | | |
| Profit on disposal of fixed assets..... | \$11,362 | | |
| Profit on disposal of investment..... | 20,000 | | |
| Profit on redemption of series "A" debentures..... | 57,600 | | |
| Adjustment to prior years' income (Note 12) .. | 22,988 | 111,950 | 337,867 |
| | <hr/> | <hr/> | <hr/> |
| | | | \$ 226,086 |
| Provision for income taxes..... | | | 1,016 |
| | | | <hr/> |
| | | | \$ 225,070 |
| Minority interest in net profit of Meridian Airmaps Limited..... | | | 18,441 |
| | | | <hr/> |
| Net profit..... | | | <u>\$ 206,629</u> |

Consolidated Statement of Deficit For the Year Ended October 31, 1963

| | |
|---|--------------------|
| Balance, November 1, 1962..... | \$1,262,758 |
| Unrealized loss on exchange on conversion of accounts of foreign subsidiary..... | 87,428 |
| | <hr/> |
| | \$1,350,186 |
| Net profit..... | 206,629 |
| | <hr/> |
| | <u>\$1,143,557</u> |

The notes to the consolidated financial statements are an integral
part of this statement.

AUDITORS' REPORT

To the Shareholders of
SPARTAN AIR SERVICES LIMITED.

We have examined the consolidated balance sheet of Spartan Air Services Limited and its Subsidiaries as at October 31, 1963, and the consolidated statements of earnings and deficit for the year ended on that date, and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of earnings and deficit, when read in conjunction with the notes appended thereto, are properly drawn up so as to exhibit a true and correct view of the state of affairs of the company and its subsidiaries as at October 31, 1963, and the results of their combined operations for the year ended on that date, in accordance with generally accepted accounting principles.

V. D. HARBINSON & CO.
Chartered Accountants.

Toronto, Ontario,
February 7, 1964.

Spartan Air Services Limited and Its Subsidiaries

Notes to Consolidated Financial Statements as at October 31, 1963

Note 1. The consolidated statements include 100% of Sulmac Exploration Services Limited, Velocity Surveys Limited, Badger Drilling Co. Ltd., and Spartan Air Services S.A. and 51% of Meridian Airmaps Limited. There are other subsidiaries not consolidated which are inactive and are valued at \$1.00 each.

Note 2. The accounts of Spartan Air Services S.A. are included in the consolidated statements at the rate of exchange of \$0.0074 Canadian to 1 (one) Argentine peso with the exception that fixed assets, incorporation expense and issued capital are converted at the rates of exchange effective at the dates of acquisition. The accounts of Meridian Airmaps Limited are included in the consolidated statements at the rate of exchange of \$3.00 Canadian to £1 Sterling.

Note 3. On August 15, 1956, the Company entered into a contract to lease certain land in Ottawa from the Department of Transport for a period of twenty years at an annual rental of \$3,250. The building owned by the Company is constructed on this land.

Note 4. Under the terms of the lease of the factory, Meridian Airmaps Limited is required within ten years of January 1, 1963 to construct a roadway to the premises. No provision has been made for this cost in the accounts.

Note 5. Under the terms of a proposal under the Bankruptcy Act by the Company to its Creditors, the unsecured Creditors agreed to accept a dividend of 25% in full and final settlement of their claims, payable in five equal annual instalments, the first of which became due on February 1, 1960. The first four payments were made and the current liabilities include a provision of \$35,067 for the estimated amount due on February 1, 1964.

Note 6. The loan due to the Industrial Development Bank, secured by a first, fixed and specific charge on the Company's aircraft and equipment and a first floating charge on all other property and assets has been renegotiated to provide for the following payments—monthly instalments of \$5,000 each to June 1964 and monthly instalments of \$12,500 each month from June 1964 to November 1965. Interest will be computed at 6½% per annum payable monthly on \$251,042 of the loan, and at 7% per annum payable monthly on \$37,500 to November 1965.

Note 7. The sinking fund requirements of the series "A" debentures at present call for an annual principal redemption of \$72,000 on the first day of December 1963 to 1969 inclusive.

Note 8. During the year the Company obtained supplementary letters patent increasing the authorized common share capital from 2,000,000 to 3,000,000 common shares of no par value by the creation of an additional 1,000,000 common shares of no par value, ranking pari-passu with the existing common shares.

Note 9. Funded debt and other long-term liabilities include the following obligations:

| | | |
|---|-----------|------------------|
| Deferred accounts payable (Note 5)..... | | \$ 35,067 |
| Notes payable (secured)—(maturing 1963-1966)..... | | 177,560 |
| Bank Loan (secured)—(maturing 1964-1970)..... | | 52,500 |
| Industrial Development Bank Loan (secured)—(Note 6)..... | | 260,000 |
| 6% Sinking fund debentures Series "A" (secured)—(Note 7)..... | \$504,000 | |
| Less: Debentures purchased to meet the Sinking fund requirement due December 1, 1963 | 72,000 | 432,000 |
| 5% Debentures payable (maturing November 25, 1964)..... | | 30,000 |
| | | <u>\$987,127</u> |

Note 10. Share purchase warrants in respect of 99,900 common shares were outstanding at October 31, 1963 at the following prices:

\$4.50 per share if exercised before December 1, 1964,

\$5.50 per share if exercised after December 1, 1964 or on or before December 1, 1966

Note 11. Dividends aggregating \$48,600 on the Class "A" preferred shares are in arrears for the fiscal years 1958 to 1963 inclusive. Under the rights and privileges attached to these shares, each share carries the right to 100 votes when dividends are in arrears for two or more years.

Note 12. Included in the adjustment of prior years' income is an amount of \$18,625 representing the value attributed by management to 93,128 shares of Mespi Mines Limited received in settlement of an accounts receivable previously written off.

Note 13. The Company has a contingent liability to Arctic Wings Limited who is being sued for \$100,000 personal injuries and \$11,000 property damage in connection with an accident which occurred in 1953. This action has been contested on the advice of counsel of Arctic Wings Limited.

Note 14. A subsidiary company is contingently liable as guarantor for mortgages of approximately \$67,850.

